SaskWater

Saskatchewan Water Corporation

Second Quarter Report
Sept 30, 2016

SaskWater

Corporate Profile

SaskWater is committed to providing the highest level of service to its customers.

That promise is reflected in the corporation's Vision, Mission and Values.

Our Vision is to be the best at connecting water for life and growth, partnering for a better tomorrow.

Our Mission is to provide safe, reliable and sustainable water and wastewater services for Saskatchewan.

SaskWater is Saskatchewan's commercial Crown water utility, helping communities, First Nations and industry gain access to reliable and professional water and wastewater services.

SaskWater provides professional water and wastewater services to 64 communities, nine rural municipalities, 85 rural pipeline groups, 16 industrial and 236 commercial and end user customers. SaskWater serves more than 74,000 people in Saskatchewan

The corporation owns eight water treatment plants, three wastewater facilities, 39 pump stations, 140 kilometres of canal and 935 kilometres of pipeline. SaskWater also maintains customer-owned systems and provides operator training to 29 Saskatchewan First Nations communities.

SaskWater's Values

Integrity - We act ethically with respect, honesty, courtesy and fairness.

Professionalism - We provide quality, expertise and excellence in the delivery of our services, and we are accountable for our actions.

Teamwork - We promote cooperation and commitment to achieve our common goals.

Safety - We are committed to safety in all aspects of our operations.

Innovation - We pursue continuous improvement and innovative solutions.

Environment - We respect and support the environment and communities where we live and work.

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Financial and Operating Highlights

	Three Months Ended September 30		Six Months Ended September 30	
	2016	2015	2016	2015
FINANCIAL HIGHLIGHTS ($ thousands):				
Total revenue	$ 14,306	$ 12,728	$ 27,150	$ 25,333
Total expenses	12,056	9,719	22,372	19,949
Operating income	2,250	3,009	4,778	5,384
Net finance income (expense)	(305)	(612)	(284)	(1,573)
Net Income	$ 1,945	$ 2,397	$ 4,494	$ 3,811
Unrealized gains (losses) included in net finance amount	$ 142	$ (270)	$ 596	$ (951)
Dividends	$ 394	$ 481	$ 775	$ 846
Debt Ratio			43.85 %	44.73 %
OPERATING HIGHLIGHTS (cubic meters):				
Non-potable water distributed	9,188,443	10,096,132	19,021,623	19,836,919
Potable water distributed	1,957,828	2,065,494	4,029,809	4,017,963

SaskWater

Management Discussion and Analysis

Introduction

Management's Discussion and Analysis (MD&A) highlights the primary factors that affected the financial results and operations of SaskWater for the three months ended Sept. 30, 2016.

The MD&A should be read in conjunction with the unaudited condensed financial statements which have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (IFRS).

The SaskWater Board of Directors approved these interim financial statements at their meeting on Nov. 23, 2016.
For additional information refer to SaskWater's 2015-16 Annual Report.

SaskWater has defined four measurable strategic objectives to guide the corporation: Customer Driven, Pursuing Excellence, Valuing Employees, and Succeeding Financially.

SaskWater employs provincially certified operators supported by a team of highly qualified technicians, technologists and professional engineers. In addition to operating its own systems, the company also provides certified operations and maintenance for water and wastewater systems.

SaskWater currently owns and operates regional wastewater treatment facilities at Nipawin and Fort Qu'Appelle and a municipal wastewater facility serving Pierceland.

SaskWater can address new demands for water and wastewater services from municipal customers through further:

- Development of service clusters for cost-effective delivery of services to customers.

- Implementation of proven treatment plant technologies that exceed regulatory requirements and ensure quality control is maintained.

- By ensuring the company has the people and the training to meet anticipated demand for services.

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Highlights

Non-Potable Water

Non-potable water is primarily distributed to large industrial customers, especially in the potash mining sector. Non-potable revenues are up due to the addition of new customers and contractual obligations within contracts. The overall change in volumes is largely related to market conditions within the potash sector. In 2016, volumes are 4% lower than 2015 with most potash customers decreasing their consumptions in the six month period ended September 30.

Potable Water

Potable water volumes have increased 0.3% in the six-month period ended September 30, 2016, as compared to the same period in 2015. Rate increases and new customers have contributed to the additional revenue over 2015. Potable water is primarily supplied to municipal customers. Seasonal fluctuations are more often noted during the first and second quarters and are influenced by temperature and precipitation and the resulting impact on such uses as lawn and garden watering. Water volumes within municipalities tend to be more stable during the third and fourth quarters of the year.

Services

Service revenues include certified operations and maintenance where SaskWater provides operator expertise to run customer-owned facilities; project management, which is largely related to pre-construction engineering services while project proponents complete their feasibility analysis; operator training support to 29 First Nations and northern project management, which relates to engineering services to northern Saskatchewan communities primarily in conjunction with the Ministry of Government Relations.

Project management revenues were slightly lower in the six-month period ended September 30, 2016 as compared to the same period in 2015. This was largely in response to a decision by a major project proponent late in 2015 to slow the pace of their work.

Expenses

Expenses have increased in the six-month period ended September 30, 2016 over the same period in 2015 across most operational categories. These increases relate to serving new customers as well as increases from bulk water suppliers and an elevated level of repairs and maintenance year to date.

Net Finance Expense

Finance costs include debt servicing costs on funds borrowed to support investments and earnings on debt retirement funds that are set aside to retire capital market debts on their maturity. The debt retirement funds were $15.802 million at September 30, 2016. Debt retirement funds are adjusted to reflect the change in market value of the underlying securities at each reporting period. During the six month period ended September 30, 2016, SaskWater recorded positive market adjustments totalling $596. There were negative market adjustments totalling $951 during the same period in 2015. The market adjustments alone account for over $1.5 million of the difference between the two reporting periods.

Saskatchewan Water Corporation

Statement of Financial Position

(unaudited - thousands of dollars)

	as at September 30, 2016	as at March 31, 2016	Change
Assets			
Current assets			
Cash	$ 6,510	$ 7,192	$ (682)
Trade and other receivables	10,816	9,097	1,719
Prepaid expenses and inventories	784	1,091	(307)
	18,110	17,380	730
Investment - debt retirement funds	15,802	14,769	1,033
Property, plant and equipment	302,870	296,724	6,146
	$ 336,782	$ 328,873	$ 7,909
Liabilities and Province of Saskatchewan's Equity			
Current liabilities			
Trade and other payables	$ 9,048	$ 8,536	$ 512
Notes payable	13,519	12,999	520
Infrastructure deposits	5,200	5,390	(190)
Dividends payable	394	190	204
Current portion of deferred revenue	3,684	3,943	(259)
Current portion of long-term debt	2,600	-	2,600
	34,445	31,058	3,387
Deferred revenue	193,263	189,777	3,486
Provisions	1,433	1,516	(83)
Long-term debt	46,818	49,418	(2,600)
Employee benefits	470	470	-
	276,429	272,239	4,190
Province of Saskatchewan's Equity			
Equity advance	8,700	8,700	-
Retained earnings	51,653	47,934	3,719
	60,353	56,634	3,719
	$ 336,782	$ 328,873	$ 7,909

Saskatchewan Water Corporation

Statement of Operations and Comprehensive Income

(unaudited - thousands of dollars)

	Three months ended September 30			Six months ended September 30		
	Actual 2016	Actual 2015	Variance	Actual 2016	Actual 2015	Variance
Revenue (Note 4)						
Water sales and treatment	$ 10,690	$ 10,203	$ 487	$ 21,005	$ 19,705	$ 1,300
Services	2,483	1,634	849	3,893	3,850	43
Other	1,133	891	242	2,252	1,778	474
	14,306	12,728	1,578	27,150	25,333	1,817
Expenses						
Salaries and benefits	3,122	2,899	(223)	6,330	5,859	(471)
Operations, maintenance, and administration	4,108	2,494	(1,614)	6,527	5,570	(957)
Amortization of property, plant and equipment	2,200	1,938	(262)	4,400	3,875	(525)
Bulk water purchases	2,461	2,223	(238)	4,785	4,305	(480)
Saskatchewan taxes	165	165	-	330	340	10
	12,056	9,719	(2,337)	22,372	19,949	(2,423)
Operating income	2,250	3,009	(759)	4,778	5,384	(606)
Finance income	227	145	82	776	342	434
Finance expense	(532)	(757)	225	(1,060)	(1,915)	855
Net finance income (expense) (Note 5)	(305)	(612)	307	(284)	(1,573)	1,289
Net income (loss)	$ 1,945	$ 2,397	$ (452)	$ 4,494	$ 3,811	$ 683
Other comprehensive income (loss)	-	-	-	-	-	-
Total comprehensive income (loss)	$ 1,945	$ 2,397	$ (452)	$ 4,494	$ 3,811	$ 683

Saskatchewan Water Corporation

Statement of Retained Earnings

(unaudited - thousands of dollars)

	Three months ended September 30			Six months ended September 30		
	Actual 2016	Actual 2015	Variance	Actual 2016	Actual 2015	Variance
Retained Earnings						
Retained Earnings, beginning of period	$ 50,102	$ 44,994	$ 5,108	$ 47,934	$ 43,945	$ 3,989
Total comprehensive income for the period	1,945	2,397	(452)	4,494	3,811	683
Dividends	(394)	(481)	87	(775)	(846)	71
Retained Earnings, end of period	$ 51,653	$ 46,910	$ 4,743	$ 51,653	$ 46,910	$ 4,743

Saskatchewan Water Corporation

Statement of Cash Flows

(unaudited - thousands of dollars)

	Three months ended		Six months ended	
	September 30 2016	September 30 2015	September 30 2016	September 30 2015
Operating activities				
Net income	$ 1,945	$ 2,397	$ 4,494	$ 3,811
Items not affecting cash from operations:				
Amortization of property, plant and equipment	2,200	1,938	4,400	3,875
Impairment of assets	-	-	-	-
Amortization of deferred revenue	(996)	(736)	(1,992)	(1,473)
Amortization of provisions - onerous contracts	(63)	(60)	(126)	(121)
Employee benefits	-	-	-	-
Net financing (income) expense	305	612	284	1,573
Loss (gain) on disposal of property, plant and equipment	4	(17)	4	(13)
Change in non-cash working capital items:				
Trade and other receivables	86	(177)	(1,719)	(4,406)
Prepaid expenses and inventories	50	81	307	113
Trade and other payables	3,124	(2,394)	512	(40)
Infrastructure deposits	1,685	2,232	(190)	2,598
Deferred revenue	2,823	11,192	5,219	20,285
Interest paid	(604)	(466)	(1,016)	(910)
Interest received	1	2	6	6
Cash provided by operating activities	10,560	14,604	10,183	25,298
Investing activities				
Property, plant and equipment expenditures	(6,550)	(13,955)	(10,599)	(25,800)
Proceeds on disposal of property, plant and equipment	49	52	49	70
Cash used in investing activities	(6,501)	(13,903)	(10,550)	(25,730)
Financing activities				
Proceeds from long-term debt	-	-	-	-
Proceeds from (Repayments of) notes payable	(500)	400	520	440
Repayment of long-term debt	-	-	-	-
Debt retirement fund installments	(135)	(135)	(264)	(264)
Debt retirement fund Redemptions	-	-	-	-
Dividends paid	(381)	(365)	(571)	(662)
Cash provided by financing activities	(1,016)	(100)	(315)	(486)
Change in Cash	3,043	601	(682)	(918)
Cash, Beginning of Period	3,467	5,921	7,192	7,440
Cash, End of Period	$ 6,510	$ 6,522	$ 6,510	$ 6,522

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited
September 30, 2016

1. General Information

The Saskatchewan Water Corporation (the Corporation) is a corporation located in Canada. The address of the Corporation's registered office and principal place of business is 200-111 Fairford Street East, Moose Jaw, SK, S6H 1C8.

The Corporation was established on July 1, 1984 under the authority of The Water Corporation Act which remained in effect until December 31, 2002. On October 1, 2002 The Saskatchewan Water Corporation Act was proclaimed.

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada, but is subject to Provincial corporate capital tax.

The principal activity of the Corporation is to construct, acquire, manage or operate works and to provide services in accordance with any agreements that it enters into pursuant to *The Saskatchewan Water Corporation Act*.

2. Basis of Preparation

Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (IAS) 34 - *Interim Financial Reporting* and accordingly do not include all of the information required for full annual financial statements.

The condensed interim financial statements were authorized for issue by the Board of Directors on November 23, 2016.

Interim measurement

SaskWater's sales to municipal customers are seasonal, with the second and third quarters being the strongest periods, reflecting hotter weather and higher outdoor water usage.

Basis of measurement

The condensed interim financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments that are accounted for at fair value through profit and loss.
- Provisions.
- Employee benefit obligations.

Functional and presentation currency

These financial statements are presented in Canadian Dollars, which is the Corporation's functional currency.

2. Basis of Preparation (continued)

Use of estimates and judgments

The preparation of these condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas of estimation uncertainty and critical judgments in applying accounting policies are:

- Valuation of trade and other receivables
- Underlying estimates of useful lives and amortization of property, plant and equipment
- Underlying estimates of deferred revenue and infrastructure deposits
- Carrying amounts of provisions and underlying estimates of future cash flows
- Carrying amounts of employee benefits and underlying actuarial assumptions
- Underlying estimates for future commitments and contingencies

3. Significant Accounting Policies

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those disclosed in the corporation's March 31, 2016 audited financial statements.

The accounting policies have been applied consistently to all periods presented in these condensed interim financial statements.

New standards and amendments to standards

The following new standards, and amendments to standards, effective for annual periods beginning on or after January 1, 2015, have been applied in preparing these condensed financial statements:

- IFRS 13 *Fair value measuement*
- IAS 16 *Property, plant and equipment*
- IAS 24 *Related party disclosures*

The adoption of these amended standards had no impact on the condensed financial statements.

3. Significant Accounting Policies (continued)

New standards and interpretations not yet adopted

The following new and ammended standards are not yet effective and have not been applied in preparing these financial statements:

IFRS 9, *Financial Instruments* - replaces IAS 39 *Financial Instruments: Recognition and Measurement*. This Standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers* - clarifies the principles for recognizing revenue from contracts with customers and will affect certain of the Corporation's accounting policies upon its effective date. This standard was effective for annual periods beginning on or after January 1, 2017; however on September 11, 2015 the IASB confirmed the one-year deferral of the effective date.

The Corporation is continuing to review the new and amended standards and has not yet determined the impact on its condensed financial statements.

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Notes to the Financial Statements - unaudited
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4. Revenue

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
	(Thousands)		(Thousands)	
Water sales and treatment				
Potable water supply	$ 5,168	$ 5,183	$ 10,784	$ 10,056
Non-Potable water supply	5,371	4,856	9,914	9,313
Wastewater treatment	151	164	307	336
	10,690	10,203	21,005	19,705
Services				
Certified operations & maintenance	475	395	969	814
Project management	1,707	939	2,264	2,374
Northern project management	130	139	289	303
Operator training	163	161	355	344
Leak detection	-	-	8	15
ROAM	8	-	8	-
	2,483	1,634	3,893	3,850
Other				
Amortization of customer contributions	930	679	1,859	1,358
Amortization of government grants - capital related	67	57	134	114
Miscellaneous revenue	136	155	259	306
	1,133	891	2,252	1,778
	$ 14,306	$ 12,728	$ 27,150	$ 25,333

5. Finance income and expenses

	Three months ended September 30		Six months ended September 30	
	2016	2015	2016	2015
	(Thousands)		(Thousands)	
Finance income				
Debt retirement fund earnings	$ 83	$ 143	$ 173	$ 337
Positive changes in fair value of debt retirement funds	143	-	597	-
Other finance income	1	2	6	5
	227	145	776	342
Finance expenses				
Interest expense on short-term debt	24	39	42	88
Interest expense on long-term debt	487	420	974	821
Negative changes in fair value of debt retirement funds	-	270	-	951
Unwinding of discount on provisions	21	27	43	54
Other interest expense	-	1	1	1
	532	757	1,060	1,915
Net finance expense	$ (305)	$ (612)	$ (284)	$ (1,573)

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited
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6. Equity Advance and Capital Disclosure

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

The Corporation's debt management plan is built on the goal of ensuring the capacity to meet long term obligations and ensuring financial health, while achieving the growth plans of the Corporation.

As a Crown corporation, SaskWater receives its long-term capital funding primarily from the Saskatchewan Ministry of Finance. SaskWater also has access to a $30 million line of credit, extended by the Saskatchewan Ministry of Finance, which is used to manage short-term liquidity.

The Corporation's capital consists of notes payable, long-term debt and equity, less debt retirement funds.

The Corporation monitors capital on the basis of the debt ratio. The current long-term debt ratio target is 60%, which is consistent with the prior period. The debt ratio is calculated as net debt divided by end of period capitalization as follows:

	September 30, 2016	March 31, 2016
	(Thousands)	
Gross long-term debt	$ 49,418	$ 49,418
Notes payable	13,519	12,999
Debt retirement funds	(15,802)	(14,769)
Net debt	47,135	47,648
Total equity	60,353	56,634
Capitalization	$ 107,488	$ 104,282
Debt ratio	43.9%	45.7%

The Corporation has complied with all externally imposed restrictions on its debt for the period ended September 30, 2016.

Saskatchewan Water Corporation

Notes to the Financial Statements - unaudited
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7. Commitments and Contingencies

a) Contractual commitments (Thousands)

As of September 30, 2016, the Corporation has outstanding commitments of $13,767 (March 31, 2016 - $14,031) for construction contracts and consulting agreements primarily relating to assets under construction and other service contracts.

b) Litigation

The Corporation has provided, in its accounts, for any known claims from lawsuits or other legal proceedings for which there is material risk of liability to the Corporation in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise between amounts provided and amounts expended in the period in which the claims are resolved.

8. Financial instruments

a) Fair values

Fair values are the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The following summarizes the classification, carrying amounts and fair values of the Corporation's financial instruments:

	Classification[1]	September 30, 2016 Asset (Liability)		March 31, 2016 Asset (Liability)	
		Carrying Amount (Thousands)	Fair Value	Carrying Amount	Fair Value
Financial assets					
Cash	FVTPL	$ 3,467	$ 3,467	$ 7,192	$ 7,192
Trade and other receivables	L&R	10,902	10,902	9,097	9,097
Debt retirement funds	FVTPL	15,441	15,441	14,769	14,769
Financial liabilities					
Trade and other payables	OL	6,018	6,018	8,536	8,536
Notes payable	OL	14,019	14,019	12,999	12,999
Dividends payable	OL	381	381	190	190
Infrastructure deposits	OL	3,515	3,515	5,390	5,390
Long-term debt	OL	49,418	55,363	49,418	53,593

[1]Classification details are as follows:
FVTPL - Fair value through profit and loss
L&R - Loans and Receivables
OL - Other Liabilities

8. Financial instruments (continued)

The estimated fair values of these financial instruments have been determined based on the following methods and assumptions, and may not represent the amounts that could be realized upon settlement.

All long-term debt obligations are estimated using discounted cash flow analysis based on current market yields for similar arrangements (Level 2). Debt retirement funds are valued at closing period-end unit prices received from the Saskatchewan Ministry of Finance (Level 2).

b) Determination of fair values

When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash, trade and other receivables, trade and other payables and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.
Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

	September 30, 2016		March 31, 2016	
	Level 1	Level 2	Level 1	Level 2
		(Thousands)		
Debt retirement funds	$ -	$ 15,441	$ -	$ 14,769
Long-term debt	$ -	$ 55,363	$ -	$ 53,593